Conference Call Transcription

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PRESENTATION

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Good afternoon and thank you for joining us on this webinar to discuss Bharti Airtel's First Quarter FY2022 results. Before I hand over the call to Gopal, I wanted to quickly remind all the participants that we will be conducting a Q&A session and participants who wish to ask a question can send the question using the moderator chat option on their BlueJeans interface. With this, I hand over to Gopal for his opening remarks.

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Thank you, Komal. Good afternoon, ladies and gentlemen. Thank you for joining this webinar to discuss Bharti Airtel's results for the quarter ended 30th June 2021. Also, present with me on this webinar are Badal Bagri, Harjeet Kohli and Komal Sharan.

Let me start with an update on COVID-19.

India is now seeing recovery from the devastating impact the second wave of COVID-19 brought on the country and the economy. Things are slowly picking up and businesses opening up.

Right, through this tough period, our teams at Airtel did what was needed to serve our customers. Be it our network teams, the home delivery teams, our sales team or our digital teams, every single one of our people lived the spirit of service. I cannot stress how proud I am of how at Airtel each of us stood up to serve the nation in its hour of crisis.

3,224 of our employees were impacted by COVID-19 up to date. Sadly, we lost 24 of our colleagues. While this is an irreparable loss, we have done what we can to provide support to the families of these employees through generous insurance, jobs for their spouses and education for their children.

We have also set up an extensive COVID-19 support programme to help our people in dealing with the stress caused by the pandemic. Our partnership with Apollo Hospitals has allowed our employees, their families, as well as the employees of our associates to all be vaccinated. Till date, close to 90 percent of our people have been vaccinated.

In addition, we have helped our low-income customers tide over the impact of COVID-19 by providing about Rs 270 crores of benefits to keep them connected.

Let me now briefly comment on our performance during the Quarter

Our consolidated revenues for the quarter grew by 4.3% sequentially to reach Rs 26,854 crores. Our EBITDA margins improved from 48.9% to 49.1% on a sequential basis.

While a lot of attention is paid to our Mobile business, I do want to underscore the strength of our portfolio which is very clear in our performance this quarter. As you know we have three parts to our overall portfolio. India Mobile, Enterprises and Homes in India and Africa. Sequentially of the Rs 1,106 crores growth that we showed at a consolidated level, India Mobile accounted for 20 percent of this growth. The rest of the growth came from our other businesses as well as geographies outside of India. So, at a time when Wireless revenue was impacted by the COVID-19 led lock down and the consequent financial squeeze amongst many of our relatively lower income consumers, the rest of the portfolio has delivered strongly. This shows you the resilience and strength of our portfolio.

Let me now comment on each of our businesses in the portfolio.

I will start with the **Homes business**.

During the quarter we continued to expand our presence by rolling out an additional ~1 million home passes. Our innovative partnership model with the local cable operator allowed us to extend our services to an additional 98 towns taking our LCO presence now to over 300+ towns. With the continued growth in demand for high quality broadband triggered by Work from home, online education and entertainment the business added 285K customers and reached a milestone of 3.35 Mn broadband customers. This was despite challenges faced in the quarter due to lock downs. With the lifting of the lock down and the ebbing of the second COVID-19 wave, we are seeing even stronger momentum in this business. We are also seeing the temporary disconnections made by small businesses/SOHOs being activated again. Going forward, I believe Fiber to the Home is a very large opportunity and we will continue to step up investments to take our network to over 2000 towns across India and cover over 35 million home passes in the next 3 years.

We have further strengthened our #2 position in the **DTH** industry and now have a presence in ~18mn high value homes. The ARPU for the business has remained steady at Rs 151. I believe there are two opportunities to grow this business. The first is conversion from Cable and the second is the move to connected boxes which also allow us to operate as a platform of choice for driving the penetration of OTT services in partnership with OTT content providers. During the quarter, we made a representation to the Government to bring DTH under the DoT given the varying regulatory policies arising out of the different delivery modes of the very same services through different technologies – Cable, Satellite or Fiber. We will continue to pursue this to bring about a more cohesive and consistent policy regime.

For the **Mobile business**, COVID-19 induced lockdowns saw some impact on smartphone shipments. We also saw a consolidation of spends at the lower end of the market as many customers migrated to their home towns and villages. That said, the impact of this lock down on our business was substantially lower than the last one. You will recall that we lost close to 3.8 million customers in Q1 2021 while we were about flat this time. In addition, June bounced back strongly and the momentum into July has been sustained. Despite all the challenges, we added 5.1 million 4G customers and continue to lead the industry on ARPU at Rs 146. Our revenue market share at the end of Quarter 4 at well over 35 percent was at a lifetime high.

I also want to underline some changes that we made to our tariffs recently. Our minimum entry price will now start from Rs 79 vs Rs 49 earlier. This pack also offers more value to the customer with up to four times more outgoing minutes of usage. On postpaid, we are moving all our corporate entry plans to 299 from 199 while providing extra value.

Our retail postpaid plans have been further simplified. We now have just four plans and one add-on family plan. As we have always said, ARPU in India is extremely low and at this level, our return on capital is in the low single digit. ARPU must rise first to Rs 200 and eventually to Rs 300. This is a small step in that direction even as it plays to our strategy of focusing on quality customers.

During the quarter we have also deployed the additional mid band spectrum in the 1800/2100 and 2300 bands to enhance capacity and improve customer experience. One of the biggest initiatives we took was the deployment of our sub Ghz footprint on a pan India basis. We are doing this by deploying new radios in seven circles where we did not have a Sub Ghz layer. In 4 other circles, we have upgraded our software to provide 4G services on the Sub ghz layer. The introduction of the Sub-Ghz layer will give us dramatically enhanced coverage of an additional 90 million people thereby driving greater competitiveness in our mobile segment.

I do want to underscore that the Sub Ghz layer that we have introduced is the reason for the elevated capex in the quarter. Our overall capex outlook for the year remains unchanged from what we discussed last quarter. I say this because we have already made substantial investments in capacity over the last few quarters in the form of capacity additions, spectrum refarming and augmentation of transmission networks.

During the quarter we saw a traffic surge but the good news was that the consumption pattern was flatter across the day. Our investments in capacity are always made keeping peak usage in a day rather than the average usage. So with a flatter curve, capex is not impacted.

I now turn to the **Airtel Business**.

Airtel Business has consistently grown market share and outperformed its listed peers. In fact, as per Frost and Sullivan in the Enterprise Data market, our share has moved to 31.4% up from 24.4% a year ago. In the enterprise Mobility market, we are undisputed leaders with 43.3% share. In addition, we are now the leaders in IoT and indeed in every part of the connectivity market. While Covid has seen some softening of the order book in the first two months of the quarter, we have recovered strongly in June and into July. For the Quarter, Airtel Business clocked revenues of Rs 3,789 crores, a sequential growth of 2.4 percent and an EBITDA margin of 38.8%.

Airtel Business serves over 3600 large and 1 million plus emerging enterprises. Yet as I have mentioned before 20% of our customers account for 80% of revenues in every single vertical. There are many large green field accounts where we have a very low share and this is why I feel the opportunity in this business is limited by our imagination. We have two opportunities – the first is to go Deeper, what we call Farming. This is about leveraging the trust that we enjoy with our customers to offer many more solutions around Cyber Security, Surveillance, Cloud communications, Cloud based services, Work from home solutions etc. At the same time, there is a massive opportunity to also go wide. To build our presence in several customer accounts where we are either not present or have limited presence. This is what we call Hunting. Our entire Go to market has now been retooled to address both these opportunities through a combination of differential focus, sales incentives and insourcing of our SME sales force. All of this is being bolstered by strong omni-channel digital capabilities from search to discover to purchase and finally experience. Our teams are now digitally enabled end to end so that the process of sales, training and even fulfilment is completely automated.

Having commented on each of our business segments, I want to step back today and talk about our view of the market and customer opportunity. Our strategy and choices flow from this view.

There are several Indias as we all know – Incomes, Lifestyles, geographies all have an impact on the wide differences in the India opportunity. But let me give you a quick over simplification of this market. This will help clarify the basis of our strategic choices.

There are potentially 50 odd million high value homes in India. They comprise of executives, self employed professionals, business men etc. These are customers who want to feel special, desire a simple, convenient experience and are concentrated in the top 25 cities of India. Their average spend on all Telecom and Entertainment services is about 1500-2000 Rupees per month today.

The second broad segment comprises of almost 500 million migrants, gamers, young students, blue collared workers, traders and farmers in rural areas. For the sake of simplicity let us call them Aspirers. These Aspirers have a smartphone for whom the device is an essential part of their lives. They seek a good experience around their specific use cases and look for good value not necessarily the lowest price. A large part of this customer base is concentrated in about 300 odd districts in India.

The common characteristic of both these segments is that they switch seamlessly between channels – both online and offline.

The third segment comprises of an additional 400 million users comprising of farmers, the elderly, housewives, rural traders and are largely users of feature phones today. They are looking for basic connectivity and a satisfactory experience that is hassle free.

The first two segments – the high value home and the aspirers account for almost 85-90% of the overall consumer market in Telecom as a whole.

This view of the market is what informs our choices and informs our strategy. We have a four pronged approach.

First, to provide a razor-sharp focus on these quality customers that give almost 85-90 percent of industry revenue. Second, a relentless obsession to deliver the best experience for them through our network and all the digital assets that we are building.
Third leveraging these digital assets as well as the partnerships we form to create new revenue streams in adjacent areas. And finally doing this with financial discipline and sound governance. This strategy is the thread that ties all our businesses together.

I want to provide some texture to each of these areas.

Let me start with **Quality customers**.

Our focus here is to strongly differentiate our service in a way that is difficult to replicate. A few examples of this are the Post Paid Family plan which has a powerful network effect and creates barriers to exit. Almost 61%+ of our postpaid customers are now on the Family plan with negligible churn. Another example is the integration of our Payments bank proposition into the core of the Mobile offer. Airtel Safe Pay is the most secure way to pay online and Airtel Bank wala sim that meets a very tangible need for the aspirers are two illustrations of that. The last example is our pivotal launch of Airtel Black. This is India's first truly converged solution. It is built for a high value home who has the option of bundling 2 or more of Airtel services (Fiber, DTH, Mobile) together to be a part of the Airtel Black club. This entitles the customer to one single bill, one Customer Care number with a dedicated team of relationship managers, and priority resolution of faults and issues. All of this also comes with zero-switching and installation costs coupled with free service visits for life. The exciting thing for us is that close to 30 million of the 50 million high value homes are already on our network either with a Postpaid, DTH or Broadband. So this opportunity is ours to tap into.

In fact, we have seen strong traction on Airtel Black and are already close to reaching the 700K mark in terms of Homes. Remember each of these homes gives an additional Average Revenue per Account of 650 Rupees.

The second element of our strategy which matters deeply to the quality customers we serve is to deliver a **great experience**.

It starts with the Network, which is our biggest strength. We have invested over One Lakh fifty one thousand crores over the past 5 years across Spectrum and Capex to build a world class network. One that delivers the best speeds, the best video experience, the lowest latency and the best gaming experience in India. Our complaints which are a simple measure to drive the behaviour of every employee in Airtel is at an all time low. And we have built a network that's fully ready for 5G. It's a capability we have already demonstrated by conducting India's first 5G demo over a LIVE network and are now conducting trials in multiple cities. We have made substantial investments in our transport layer over the last few years to be ready to deploy 5G when needed.

We are also leading the O-RAN initiative in India by partnering with the best companies such as Intel, Qualcomm, Mavenir, Altiostar and Red Hat. In addition, we are now part of a very critical make in India push, having announced a strategic partnership with the Tata group.

Our formidable spectrum holdings particularly in the mid band can be deployed for 5G over time. All of this is supported by India's largest network of data centres and large global submarine capacities.

The other aspect around experience is to deliver a truly omni channel model of delivery. Customers today switch seamlessly between online and offline channels and are looking for a consistent and cohesive experience wherever they are.

Our model to deliver this is to follow the customer across the flywheel of experience as we call it. This flywheel traces the customer across every part of the lifecycle – Search, Discovery, Purchase, Onboard, Experience and Refer.

Every part is being retooled by our Digital teams. Let me give you one example from Airtel Black. A customer today can order Airtel Black from the Web or our App. The moment the order is placed, this goes straight to the nearest store who confirms the time and date of the appointment. All metrics relating to this call are tracked inside Airtel IQ. Once the appointment is taken the work order goes digitally to the nearest installer through our Airtel Work app which tracks and provides analytics on the time taken to complete the app. It also has an inbuilt scheduling algorithm to make sure that no time is wasted between two tasks. This entire capability has been built by our Digital teams in a totally modular way. This will allow us to expand the menu of products to meet many more needs in the homes of our customers. In addition, this capability can also be taken to our Business customers to create new digital services revenues. We have already done this with Airtel IQ and will do the same with Airtel Work.

Today we have over 1900 people in our Digital organisation building products and services like this. Airtel is also increasingly a magnet for the best and the brightest of digital talent.

And this leads me to the third part of our strategy. **Leverage our digital assets to create new revenue streams in adjacent areas**.

Today, Airtel has one of the biggest digital ecosystems in India with over 185 Million MAUs across its three platforms – Airtel Thanks, Wynk Music and Airtel Xstream. As of today, Airtel Payments Bank has a Monthly transacting user base of close to 30 million users, an annualised GMV of over 1,00,000 crores and a merchant base of over 7 Million. Even more importantly, Airtel Payments bank is being fully integrated into all our Digital channels – both our consumer App as well as Retailer App making us one of the few companies that can collect cash for any service at the point of sale – both online and offline. I am also pleased that Airtel Payments Bank is now on the verge of hitting a 1000 crore annualised revenue run rate and has broken even in the month of July.

Our four core strengths of Data, Payments, Distribution and Network are now increasingly becoming a source of competitive advantage to build an Airtel of the future. There is Nxtra by Airtel which is today the largest network of Data Centre business in India. We have Airtel IoT that is now the market leader in the M2M space.

We are also leveraging our digital assets to create altogether new revenue streams. There is Airtel IQ, our cloud communications suite, which now has over 120 customers spanning the biggest internet companies, banks and more. There is Airtel Secure both in the B2B and B2C space that offers protection from cyber attacks and threats. This is a business that is now gaining traction. There is Airtel Ads which ride on our vast Digital assets. Today we already have around 100 brands advertising on our platform. Finally, we have our subscription services across Music and Video which are beginning to gain traction.

All of these businesses operate in a market that is about Rs 50,000 crores and growing. Even more important, the economics of playing in these markets are very attractive since they come at almost no cost and capex. Over the last couple of quarters, we have made solid progress in driving these new streams of revenues and are now in touching distance of Rs 1000 Crores annualised. At the right point, we will provide more colour on this segment through our disclosures.

I want to end with a few words on ESG & Corporate Governance.

The Company remains aligned with the Paris Climate Accord; Proactively implementing clean, fuel-based power solutions for our towers, data centres, switching centres and other facilities. We have remained committed to society, our customers and employees right through the harrowing times of the pandemic.

We have continued to demonstrate the highest standards of corporate, financial and operational disclosures. Our classification of revenue and costs are in line with the best global peers. Our operational KPI definitions are the most stringent in the industry. In Wireless for example our revenue earning customer definition takes into account actual revenue earned in the last rolling 30 days.

When it comes to Airtel Payments bank, we have further enhanced our reporting standards and now will be representing two additional numbers from this quarter. Firstly, the Total users - these are those who have a Bank account or wallet with us. Secondly, GMV, which is a standard definition in the industry. This is in addition to the Monthly transacting users. I must also underscore that the monthly transacting users that we report are those unique users who have transacted on the platform at least once in the last 30 days. This is a more stringent definition than any other payment platform.

CRISIL has recently assigned us a "GVC Level 1" rating, indicating the highest levels of corporate governance practice & value creation.

Lastly, on the recent AGR judgement of the Supreme Court. Our request was to permit the correction of computational errors in the AGR demands by DoT. These apparent errors have a significant implication on the overall AGR demand. While we are disappointed with the recent outcome, the company has provisioned for the onerous pay out and already paid over Rs 18,000 crores covering its obligations for the first few years as per the directions of the Supreme Court. On the next steps relating to any review petition, we will be guided by legal advice and no decision has been taken on this yet.

Finally, a word on our capital structure. The balance sheet continues to remain strong with healthy cash flows and a Net Debt/Ebitda of just about 3x - a position that is comfortable. The business has been generating strong cash flows for many quarters now. This has been a result of revenue growth, strong operating leverage and effective deployment of capital. Over the past few months, we have announced multiple monetisations in Africa in the form of tower sales as well as stake sales in Airtel Money. Following a 200 million dollar investment in Airtel Money by TPG, a 100 million dollar investment by MasterCard and the sale of tower companies in Madagascar and Malawi, we have also recently announced an additional 200 million dollar investment from Qatar Investment

Authority in the mobile money business in Africa. The total proceeds of close to a billion dollars from all these transactions will be used for deleveraging.

In sum, our performance for the recent Quarter has been strong because of the resilience and depth of our portfolio. In every one of our businesses, we are at a lifetime high in terms of revenue market shares, the most critical barometer of our competitiveness. Our momentum going into Quarter 2 has been strong.

Our strategy and choices are dictated by our view of the India market opportunity. And these are cohesive and simple. Even more importantly, we are building an Airtel of the future and are well positioned to thrive as we go forward

Thank you and I will now take your questions.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thank you, Gopal. I wanted to quickly remind all participants that they can send us their questions on the moderator chat option on the Airtel BlueJeans interface. The first question that we will be taking is from Ashwin Jain from ICICI Prudential MF. Gopal, his first question is that as an outside analyst he sees Bharti Airtel as a leader in the postpaid and the premium segment. It is also the understanding that typically pricing hike leads are taken by the leader and therefore could you articulate why Airtel is not more aggressive on price hikes within the premium customer segment? I will ask a second question after you answer it.

Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia, Bharti Airtel Limited

I think that is a good question. We have already done that. We have taken a price hike on postpaid in the B2B space, moving up our entry plan from Rs.199 to Rs.299. On all other plans, we are at a very substantial premium. In fact, I would argue that our entry plan on postpaid really begins at Rs.399. You know there are plans in the market today that some of our competitors offer in postpaid which start at Rs.199. So we are close to 2x of those plans. That is a very substantial premium already.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Gopal, the second question is on the network. He would like to congratulate us on the operational excellence and the question is that we now support 844 4G users per tower compared to about 712 users per tower a year ago and therefore could you talk a little bit about the operating leverage with regards to the number of towers and the data consumed per user?

Gopal Vittal - Managing Director & Chief Executive Officer, India & South Asia, Bharti Airtel Limited

I think the fact is that the overall data consumed in India is exceedingly high. This is simply because of the extremely high allowances provided by the industry at very low levels of pricing. This is something that we have been talking about that the ARPUs in the country are perhaps lower than where it should be to provide a reasonable return on capital for our investments. The reason that our users per tower have gone up is that we have really focused a lot on this. We have a project where we measure the utilization of every single tower. We look at the number of users at every single tower and our entire go-to market is aligned to that metric. So, one of the things that all our sales teams and our field force are accountable for is actually driving up utilization of what we call “low utilization sites” or “unprofitable sites” so that the average comes up. This is one of the reasons that we saw a significant part of our incremental net adds in the last 12 months actually coming from those sites where our utilizations were low.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks. The next question is from Kunal Vora from BNP Paribas. He wants to ask you what are your thoughts on the industry structure over the next one to two years and is Airtel prepared for a two-player market if the situation arises and if it does, what would be the additional investment required?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

I do feel that as a country, we do need three players. I mean this is a large enough country with over 1.3 billion people that can easily accommodate three players plus the government player. Yes, there is clearly a situation of serious financial stress in the industry and we have seen one of the players actually presenting to the government that they may not be able to pay their dues coming up in March 2022. We hope that the government does something to actually provide some relief to the industry but even more importantly I think if ARPU can go up then the industry's repair can certainly happen. So, I would love to continue to see a three-player market. I think that would be the appropriate outcome for a country as large as India. Substantial investments have been made already by the industry, there are lot of jobs directly & indirectly apart from many other parts of the ecosystem that depend on this industry for employment and livelihoods. Just from a national perspective also, it would be appropriate to see an industry structure where three players not just survive but thrive and of course the government player is always there.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks Gopal. The next set of questions is around payments bank from Kunal. He is saying thank you for disclosing additional information around payments bank. What is the nature of transactions that we are seeing and can you talk a little bit about the future plans that we have for payments bank?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

We have seen strong growth in scale on our payments bank. As we said, we have almost 30 million Monthly Transacting Users. We have several streams of revenue that come out of the payments bank. One is of course the deposits themselves that are actually put in the payments bank which earn a certain interest. Our deposit base has been growing over the last couple of years. Also, the average balance per customer has been growing. The second big revenue stream is around remittances. Here, we are the number one player across the country and this is simply because of our vast customer base on the telecom side. We understand the corridors of consumption and usage and therefore we are able to actually play in the remittance space in a very powerful way and generate large GMV. The third part is really around payments to merchants. We have a large increasing pool of merchants today, about 7 million with growth in our in our merchant payments on the offline side. Finally, there is the digital side to both payments as well as remittances that emerges. The last point on payments bank is really around cash collection. One of the big sources of revenue that we are driving is really around cash collection for companies that need digitization of cash at source. We are actually identifying each of those customers and using that as another opportunity to drive revenue in GMV.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks Gopal. The next sets of questions are from Sanjesh Jain of ICICI Securities. The first question that I will ask you is on the capex. The capex for the India business has been elevated in the past four quarters while our guidance was flattish to a slight reduction in capex, so, therefore, do we still see capex reduction in FY2022 versus FY2021 and could you please explain how much of this capex is creating capacity for 4G and how much is going towards strengthening backhaul fiber and preparation for 5G?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Sanjesh, a large part of the capex that we put in this quarter was on account of massive rollout of our sub gigahertz radios. We wanted to get that done fast. That additional sub-ghz spectrum is able to add almost 90 million customers onto our coverage footprint. Thus, one of the reasons that you see an elevated level of capex in Q1 is really on the deployment of those radios that we would otherwise have done over a period of time and we wanted to finish that up. At an overall level, there are three parts to our investment in capex now. One is radios and you will see that the incremental radio investment is now coming down with the exception of this big chunk of sub gigahertz radios that were bought. A large part of the radio is only capacity radios and today we have our 900 band and our 1800 band pretty much all across the country. We have a 2100 band in about maybe 60% of the country and we have our 2300 band in about 80% of the country. So the incremental radios that are needed for covering additional sites or additional towers are marginal at best. Therefore, the only source of radio investment is really more capacity solutions where you have very high consumption in the form of new sites but with the spectrum purchases that we have done we have been able to offset that. So the radio investments are continuing to now come down. Then, there are the core investments which is a modest part of the overall capex portfolio and there I think is a direct function of how your capacity grows. The last part is on transport and backhaul. This is where a substantial amount of investment has been made over the last few years. You will see that in most companies around the world as data grows then for the best telcos in the west almost 40% of their capex goes on transmission and fiber capex. We have also seen a significant augmentation of transmission and fiber capex over the last few years. So I would say that all in all it is a balanced capex outlay. I see no reason to change our stance on capex for the year. The elevated capex that we saw in Q1 was largely on account of the sub gigahertz rollout.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The next question from Sanjesh and this is probably for Harjeet and Gopal both of you is that Bharti has been consistently generating FCF in the past few quarters. We have also monetized assets in Africa and shared plans to monetize assets in India such as fiber etc., but we still have a large debt pool at over Rs.1250 billion, a significant part of the debt is payable to government that is understandable but it is also expensive debt at 10% interest rate. So therefore what are our plans for deleveraging, retiring the high cost debt and use of funds from the sale of assets?

Harjeet Kohli - Group Director, Strategy & Business Development

Thanks Sanjesh. I think there are two-three ways to look at this situation. One is the way what you have articulated in terms of the absolute amount and the other I think it is important to see in two contexts 1) what is the supporting base for serving this debt in terms of the overall leverage ratio and 2) how is that supporting base behaving in terms of its trends. So, I would say first of all if you see even the overall debt to the EBITDA on Q1 annualised basis, it is just about three turns which is fairly okay specifically in the capex phase as you are transiting from voice to data. Second, the core EBITDA has been increasing and I think given the pointers that Gopal mentioned around the direction of the overall mobility business tariffs, the non-mobile businesses growing at their own stable pace, new incremental pools of revenues with their associated EBITDAs flowing through. The outlook on the EBITDA is on the increase so that is I think the second piece you must keep in mind. Third, is as is where is Africa if you see. Going by the last quarter and the trends we have seen over the last three-four quarters, it generates at least about $500 million or more of free cash flow. Our tower company, in which we have a 41.73% stake, is also free cash flow generative. It has a profit after tax of around Rs 5000 crores plus minus here and there. It generates its dividend. So, there are these pools that do not need capital, they actually release capital via dividend and also through consolidation. Even, India itself is now free cash flow positive, it could be a substantial figure depending on how the coming few quarters perform on tariffs. So, overall free cash flow generation will bring debt down, EBITDA to go up with existing net debt to EBITDA fairly stable and manageable, thus there is fundamentally no need to really delever. Bulk of the deleveraging has already happened towards bank debt, where we are virtually near zero bank debt as we speak, post the quarter some more repayments was done to the banks. So, the remaining is financial lease obligations, DoT debt and keeping Africa aside, very marginal small debt in our subsidiaries whether it is Telesonic or DTH or Hexacom etc. Apart from these small pools, we have repaid bulk to all of the bank debt and left with third bucket of market debt which is dollar bonds and some domestic bonds. From a perspective of monetization, it is not needed for deleveraging but those opportunities continue to exist. I think there are three or four pools for monetisation. Africa continues to be listed. Clearly, its value is underrated. We cannot be at a P/E multiple of six or seven in Africa. You see the EV EBITDA multiples is fairly low but that pool is available it is list co, it is independent we will see what and when, without losing any control, if there is an opportunity to chip off. We have a minority stake in Robi Axiata in Bangladesh that by the way is listed now for close to nine months. It is trading today probably at about $800 million in terms of the value of our roughly 28% stake. No plans to seek control or do anything major there so for us it is a liquid opportunity. The third place is tower companies. If you recall while in December, we had added more share but fundamentally it is an independent telco and that is a pool that is available for us to think through whatever we need to do. Not even talking about the fiber InvIT and/or other structures. Also, whether it is homes business or payments bank overtime will need to find their right discipline and scale at which they are monetizable. In all, these pools are available to be played in the way the business would want to play the strategy, not necessarily to monetize. From our perspective, these remain available. So, within that context, slightly longish, net debt to EBITDA stable, improving, trend wise EBITDA is growing fast, free cash flow generative independent segments, monetizable pools which are available more or less in near liquid form and overtime new building monetization pools whether it be fiber or some of the other new subsidiaries for Airtel.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Harjeet. Two related questions one from Rohit Chordia. He is asking that do we feel we could have waited a little bit more when we were looking at diluting the stake in the Africa mobile commerce business because valuations seem low compared to some of the global transactions in this space? Another question relating to the balance sheet is would we look at acquiring some more stake now in Indus Towers given the recent share price moves there?

Harjeet Kohli - Group Director, Strategy & Business Development

To the first one, the answer is look there is always an art in terms of timing these things. It was important to see that a small roughly 10% EBITDA pool of Airtel Africa is now getting valued at 15x multiple, could we have gotten 18x, could we have waited a bit for more scale to get a better multiple. The answer is yes buy this is only a minority chip off. Between the two where the closing has been done, TPG and Mastercard, the stake dilution will be about 10.5%. So, it is not necessarily a large dilution. It gives us a benchmark. That benchmark is significantly higher in terms of EBITDA multiple that the entire Airtel Africa stock is trading at. So it allows us to be able to play the Airtel Africa story also fairly well because the illumination has to happen. Since the time we have signed each of the two quarters we have grown fantastically well in Airtel Money. So, I would say timing is an art but it is for small stake dilutions it is better to create good benchmarks and ride that up. On Indus Towers, frankly the last time also the positioning which we probably communicated back to you was driven out of what our belief is, which is a combination of value for the asset and our expectation of the dividend flows coming back. If you recall, last time we spent about Rs 2900 odd crores to acquire close to 5% in one go and within about 90 days we got 2000 crores of dividend back from the entire stock. So, if there are opportunities will be probably assessing it but is there a strategy, is there a drive to be able to do that tomorrow morning, absolutely no.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks Harjeet. Gopal the next set of questions are from Ankur Rudra of JP Morgan. He is saying it is great to see Airtel take the initiative in changing the floor plans on 2G prepaid and corporate postpaid because as these segments do not see competition from all the players, but could you share the thought process behind the timing? Why now rather than earlier and should we expect more proactive action on reshaping the pricing paradigm or removing the floor plans in the 4G prepaid side? Thank you.

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Well, why now, is any time is okay and frankly I think like we have always mentioned the ARPUs are abysmally low so any time would be welcome. What we were trying to do is actually be careful about testing this in a few markets. So, we had tested this for some period of time in Andhra Pradesh and UP West and the reason we picked those two markets is that one is a strong market and the second is a relatively weak market. Once we found the results satisfactory and meeting our action standards we went ahead and implemented them. On the B2B postpaid side, we were watching the segment, in terms of competitive intensity and the traction to competitive moves and once we found that we were in a position where we felt it was time we actually made the move. I think on the rest of it while there may be some opportunities to do it unilaterally like what we have done in a few areas, I think going up beyond the premium that we today have on the large pool of 500 million smartphones which is the aspirer segment that I spoke about could lead to some switch away of perhaps some more price elastic customers. Therefore, we need to be a little bit more careful about that. We are already at a premium and this is where we will we will perhaps not be in a position to take the first step. This is simply because that it could lead to a more erosion of customers and consequently erosion of competitiveness. So, I think we will have to wait and watch how that plays out.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The next question from Ankur is that it is great to see carving out of the digital assets including payments bank but is there any change in the thought process regarding raising external capital in these businesses?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

If you take Airtel Payments bank that is set up as a separate company, not just because of what we wanted but also because it is mandated by regulation from the Reserve Bank of India. While it is a subsidiary of Airtel, it has a strong linkage with Airtel because it is Airtel that gives it a tremendous advantage in terms of distribution, scale and customer access. Airtel Payments Bank is subject to certain regulatory restrictions and as a promoter entity, we had a lock-in period for five years to actually keep the stake after which by regulation, you can actually lower the stake. Thus, at some point, we will evaluate whether to monetize Airtel Payments Bank or look at other avenues of actually raising capital. I think on the digital assets on the other hand, this part is totally intertwined with Airtel because there is no real digital asset without access to the four strengths that I have always talked about from an Airtel standpoint. Digital assets enable us to add value not just to the core but also drive new revenue streams, but they are independent in the sense that they are independent businesses that are profitable or that have their own business model and their own economics in their own right. Just to add one more thing on the Payments Bank like I said because it is so intertwined with Airtel in terms of the advantage that Airtel brings while it operating as a separate company, the fact is that we are perhaps the only platform that with the current scale of 30 million users and close to 1000 crores of annualized revenue has already broken even. Now if you are a standalone platform, you can never breakeven with that scale and you have seen some of the other competitors who actually put out their results and the losses that they are actually incurring. So I think the business model of Airtel Payments Bank is a very powerful business model because while it operates independently, it also has the advantage of the scale and the asset base that Airtel has in terms of distribution, in terms of customer access and in terms of technology.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The next question is from Raj Nair of JP Asset Management. He wants to know your thoughts on 5G and the potential implications on our capex plans?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

I think firstly it depends on when the auction is announced. We are hearing that it could be announced as early as next year. There is likely to be an auction of spectrum the 3.5 gigahertz spectrum band where there is adequate spectrum to be made available. The reserve prices that were last announced by TRAI were astronomical and we have already said that at that price we were not able to afford it. We are hoping that the reserve price will come down. The DoT has referred back to TRAI to look at the reserve price. Our networks from a transmission standpoint are getting ready day by day. In fact, over the last two years, we made a substantial investment in transmission, transport and fiber to ready ourselves for 5G. So to that extent, we will be ready by the time the launch happens. Most of our radios by most suppliers are already 5G ready as we demonstrated in the tests that we did in Hyderabad. The core networks that we have the core investments are all getting future approved in terms of 5G so the real investments that will be needed on 5G are the additional radios that you will need to procure and that is a modular investment as the devices light up. Today, on the B2B side the use cases on 5G are still few and far between while on the B2C side some of the devices now that are coming into India. In the most recent month, about 12% of the shipments of smartphones into India were already 5G compatible, but on an installed basis it is less than 1% or 2%. So even if you look at let us say 12 to 18 months out this is likely to be about 12% to 15% of the installed base and it could start with the larger cities the more affluent geographies, before it actually rolls out everywhere. Do not also forget that as 5G rolls out some of the 4G capex will come off simply because the cost of producing a gigabyte on 5G will always be lower than the cost of producing one on 4G, given more spectrum, advanced radios to crunch in a lot more data on the same hertz of spectrum. In all, I think that is the way the capex will get managed.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks, Gopal. The next question is from Sulabh Govila from Morgan Stanley. He wants to know that with the upcoming launch of low-cost smartphones, do we expect the market to gravitate towards a subsidy-led model given that we are all vying for smartphone customers and how does that gel with our focus on the top two customer buckets that we highlighted in the opening remark?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Sulabh, that is a good question. We have always mentioned that the subsidy game is really a mug's game. Firstly, the ARPUs in India are extremely low and the financials or the P&L of any telecom company will really struggle to absorb large-scale subsidies. The second reason the subsidy is a mug's game is that because once the subsidy is withdrawn you do see customers at the end of the device upgrade cycle actually coming back and remaking their choices all over again, so it is not necessary that it stay on the same network. For all of those reasons we feel subsidy is not a great idea, but it is a competitive market and it is not up to us alone, so should there be a play in the low end of the smartphone segment we will have to wait and watch and see how that plays out. Suffice it to say that we are building a bunch of capabilities, we are working with both OEM manufacturers with Google as well as with software developers to see how we play this game in the smartest way without taking inventory positions, without manufacturing our own device while still playing with the ecosystem at large, but yet being competitive. I am not able to share a lot more texture and detail on this because some of this is still being worked through and it is still unclear what could happen competitively, but I do want to underscore that we are ready with two or three scenarios and we are working with all of these options and many of these have already been piloted and tested and are ready to be triggered whenever they need to be triggered.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thanks Gopal. The next question is from Vishnu from JM Financial. He wants to know that recently telecom companies have launched plans without daily data limits. For Airtel how has been the traction in such plans and at a broader level, could this be the way forward for the industry with higher price points but flexible usage effectively guaranteeing us higher price per GB than what we are able to garner now?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

I think the short answer to the question that you asked Vishnu is that the traction on these plans is low for the industry as well for us. Having said that I do believe, it is the right way forward because the current model of a daily quota of GBs where people are still not using their full quota and therefore consumption is going up without a necessarily commensurate increase in ARPU means the growth in volume and the growth in ARPUs are not are sort of two different lines. The one way by which actually you can have the most well-architected price structure is really to play to the consumer pyramid in India. Playing to the consumer pyramid in India means that you need to have let us say a low, medium & high type of price point. Let us say you begin at about Rs.80 to Rs.100, then you have a Rs.200 plan and you have a Rs.500 plan with different amounts of data that are actually thrown in. On the other hand, what is happening in India is that for about Rs.200 you get one and a half gigabytes of data per day which is 42 gigabytes of data in a month and therefore you do not really need much more than that given the consumption is still only about 18 gigabytes per month per customer. Therefore, we need a more sensible price architecture that plays to the consumer pyramid in India. To that extent, I think this experiment is something that we have tried but with the prevalence of the daily plans those plans are not as attractive so unless the daily plans go away these plans would not work, is what I feel.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

The next question is from Pranav Kshatriya of Edelweiss. He wants to know that has subscriber addition resumed from July and if yes what should we expect as far as revenue growth for Q2 is concerned?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

June has seen a strong bounce back, while April & May were soft because of the lockdown and that really happened as people consolidate their sims, as people postponed their recharges. Also, given our very stringent customer definition which is based on the last 30 days, it is not necessarily the customers really churn. It is just that they postpone their recharges maybe they have gone back home or two people in the home are sharing the same or have consolidated their spend behind one sim. What you normally see is at the moment the lockdown lifts, which is what we saw in June, you do see a bounce back with these customers coming back through recharging the sims again. July has been a strong month which is a good news. In August, we made the intervention of the plan from Rs.49 to Rs.79. The last time we did a similar move, we did see some sim consolidation at the lower end of the market which would show up as churn and this will take about 30 days for it to settle and then September should come back to a normal recovery. While I cannot give you a guidance for the quarter but I can tell you that it will be a combination of all of these factors, which is a strong June, a strong July, sim consolidation in August as a result of tariff increase at the lower end of the market, some bounce back in September and revenues rising out of this tariff increase flowing through.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thank you. In the interest of time, I will just ask two last questions. Firstly any medium-term guidance that we can provide on ARPUs where do we expect ARPUs to be over the medium term and secondly have we ever thought about demerging Airtel business given it is like a tech services based company and unlocking value there?

Gopal Vittal – Managing Director & Chief Executive Officer - India & South Asia, Bharti Airtel Limited

Guidance on ARPU is like a guidance and revenue so I am afraid I cannot give you a guidance on that. What I can say is that I hope that in the next few quarters we do see some rounds of tariff increase which take the ARPU up closer to Rs 200. I think that would be a good outcome and of course, eventually it needs to get to Rs 300. On Airtel business, I think if you look at the composition of Airtel business and this is true not just for us but across telcos around the world, the enterprise business is really built on top of the wireless business and let me explain that in a moment. The heart of the telecom business increasingly is fiber and while radios and so on are important, connectivity and providing fiber and large capacities to backhaul traffic is really the heart of the business and this is where the enterprise business is really interwoven very very strongly with the telecom the telecom business. This is also true for homes because once you have got the fiber up to the tower from that tower to actually take it into homes or offices is much lower in terms of cost structures than if you did not have that fiber. Once you have invested in the electronics to carry that capacity back from those towers to your central command centers that investment can be defrayed over much of these businesses that ride on top of this core infrastructure. This is why I think the enterprise business is very strongly interlinked with the telecom business. That is on the connectivity layer. The beyond connectivity, things like cloud communication, cyber security and all of these businesses could be standalone businesses but the advantage that we bring to the table is that we bring the four strengths that I talk about earlier. We bring the data of our customers, we bring the distribution and the access to those customers, we bring the ability to collect money which is payments and of course we have the network which allows us to extract APIs and provide services like Airtel IQ. The third part of our enterprise business is Nxtra which is data centers. Data centers in a way is a standalone business because really other than the access to the customer base that Airtel provides data centers, it can be spun off completely independently and this is why we brought Carlyle into our data center business with a 25% stake. So the rest of the enterprise business, I think has a very strong linkage with the telecom business.

Komal Sharan - Head of Investor Relations- Bharti Airtel Limited

Thank you, Gopal. I think with this we will bring this call to a close. Thank you everyone for joining the call. Recording of this call will be available on our website shortly. Thank you very much.